

## Q & A

### **Q. What does the insert in the last statement regarding redemption fees mean?**

- A.** The insert was intended to inform participants that a redemption fee will now be assessed for those participants who violate the excessive trading policy. A redemption fee is a charge to investors who buy and sell shares of a mutual fund within a designated holding period defined by a fund in its prospectus (typically 90 days). The fee would only apply to participant-directed exchanges. Exempt transactions include: contributions, withdrawals, dividend/income reinvestment, and shares redeemed through the automatic asset reallocation program.

Redemption fees are designed to mitigate short-term trading and protect long-term investors, such as retirement plan participants. The fee will be used by the affected fund to offset the transaction expenses that may be incurred due to frequent trading activity.

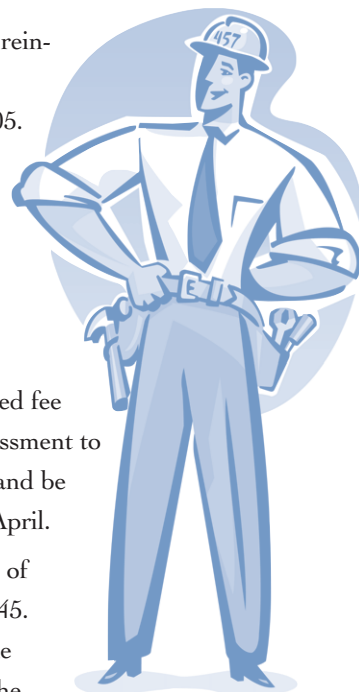
### **Q. Why is this fee being imposed now?**

- A.** While fund companies have had fees in place for years for most non-retirement accounts, retirement plans such as Deferred Compensation have not been subjected due to the complex nature of the relationships. Retirement accounts are now being included for redemption fees due to the trading scandals and subsequent Securities and Exchange Commission (SEC) investigations that have surfaced over the last two years. The allegations involved pricing policy violations and after-hours trading by several fund companies. The Deferred

### **Administrative Fee Reinstated**

The Deferred Compensation Division will reinstate a fee structure to cover the administrative expenses of the Plan for 2005. Central Management Services (CMS) was pleased to waive the administrative fee for the last two years due to an excess balance in the Treasury Fund. The excess balance has since been reduced and the Treasury Fund is at an appropriate level to cover expenses in tandem with the reinstated fee structure. Therefore, the first monthly assessment to accounts will occur at the end of January and be reported on the first-quarter statement in April.

The annual charge to participants is 0.15% of account balances with a maximum fee of \$45. The fee has been reduced 11 times since the Plan's inception in 1979. By state statute, the Deferred Compensation Plan must be administered so there are no expenses to the state. That is, all costs must be borne by the participants. The fee covers such expenses as recordkeeping, consultant projects, staff payroll, Plan materials, and mailing costs.



### **Stable Value Return for 2005**

Utilizing the current rate environment, historical participant cash flows, and INVESCO's modeling assumptions, the rate of return for the Stable Value Return Fund is estimated at a range of 4.20%–4.70% for 2005. During the year, it is expected that reinvestment rates will remain flat or slightly increase while higher-yielding investment contract maturities will continue to push the yield toward market rates. As a result, the estimated blended return for the year will remain unchanged from the previous year.

### **Required Minimum Distributions**

If you turn age 70½ in 2005 and have left state service, you must receive your required minimum distribution by April 1 of 2006. Divide your account balance as of December 31, 2004, by 27.4 if you turn age 70 in 2005, or 26.5 if you turn age 71. This is the minimum amount that you must withdraw.

If you would like to take only the required minimum distribution each year, you can choose the "recalculated life expectancy" option under "Installments" on the Participant Distribution Method Election Form. Your minimum will be calculated and distributed for you each year.

## Investment Option Update

The following is an update to the project to add fund options to the Deferred Compensation Plan's investment option lineup.

As stated in past newsletters, the Plan intends to add a series of lifestyle funds and a large-cap value fund, and determine if the Fidelity fund is the best option in the core equity slot.

The Plan's oversight and fiduciary, the Illinois State Board of Investment (ISBI), released Requests for Proposals to hire a consultant to lead the search for additions to these fund options. Following a review of consulting firms that responded, ISBI has hired Iron Capital Advisors, of Atlanta, Georgia. ISBI and the Deferred Compensation Division will now rely upon the expertise of the consultant to narrow the field of thousands of mutual funds to a select few based upon the following criteria: performance, risk control, risk-adjusted return, portfolio construction, and operations. A decision will then be made by ISBI to determine which funds best suit the needs of the Plan and its participants.

The biggest change to the Plan will involve the addition of the lifestyle funds. A series of lifestyle funds can benefit participants by simplifying the investment decision process. Lifestyle funds have professional managers who allocate assets between stocks, bonds, and money instruments based on participants' risk tolerance or the number of years to retirement. The managers will periodically reallocate the assets in the funds to lower portfolio market risk as the funds approach their target retirement dates. By doing so, a participant could choose just one fund, based on his or her projected retirement date, with no need to make any further changes in his or her lifetime.

A series of lifestyle funds could involve the addition of up to 12 new funds. To accommodate these funds plus the current core offerings, the structure of the Plan will be

presented in a new manner. The Plan offerings will be split into "tiers." The lifestyle funds will occupy the first tier in the Plan structure. If a participant does not wish to make investment decisions beyond the initial selection, he or she needs to select one fund by matching his or her projected retirement date to the lifestyle fund in that tier. The second tier would consist of the current fund offerings plus any new funds that would be added to the Plan beyond the lifestyle funds. This tier is provided to participants who are comfortable creating their own retirement portfolios. The second tier will resemble the current structure.

Participants will still have the ability to select any combination of mutual fund investments in the Plan from both tier offerings. The manner in which participants would select their investment allocations or make trades and exchanges is also not expected to change. The purpose of creating a "tiered" structure is to simplify the presentation of the fund offerings.

As always, you will be kept abreast of further developments in future newsletters.



## Income Tax Information

### Participants Who are Currently Deferring

If you are actively deferring into the Plan, your taxable income was reduced thanks to your participation in the Deferred Compensation Plan. You will only report the wages shown in Box 1 of your W-2 statement on your income tax form. Box 1 wages have been reduced by the total amount of your 2004 deferrals and any other tax-deferred and tax-exempt deductions.

Your W-2 statement will reflect contributions to the Deferred Compensation Plan (457). If the "Deferred Compensation" box in the lower right-hand corner of the W-2 is marked "X," it means you contributed to the Deferred Compensation Plan in 2004; the amount of your deferral is indicated in Box 12 with a "G" coding. Remember, you do not enter your deferred compensation anywhere on your income tax form.

### For Participants on Payout

If you received a payment from your account during the 2004 tax year, you will receive a separate 1099-R form from our recordkeeper, T. Rowe Price, by January 31, 2005. Box 2a of your 1099-R will list the taxable amount of distribution(s) you received during 2004 and should be entered on line 16b of your 1040 form. Box 7 of your 1099-R contains the distribution code for the type of distribution received. A Code of "7" in this box indicates a normal distribution for a participant over age 59½. If you were under age 59½, Box 7 will be coded with a "2" to indicate that your 457 plan distributions are not subject to the 10% additional tax on early distributions.

For federal income tax purposes, your deferred compensation plus any earnings are taxable as retirement income when they are distributed. Deferred compensation distributions are not subject to State of Illinois income tax. Report the distribution in the "federally taxed retirement and Social Security" subtraction section, which appears on line 5 of your Illinois return.

## Telephone Numbers

### Deferred Compensation:

Plan Rules/Options Information

800.442.1300

217.782.7006

TDD/TTY: 800.526.0844

Internet: [www.state.il.us/cms/employee/defcom](http://www.state.il.us/cms/employee/defcom)

### Recordkeeper:

T. Rowe Price Retirement Plan Services Account Value  
Information and Investment Changes: 888.457.5770

TDD/TTY: 800.521.0325

Internet Access: 800.541.3022

Internet: [rps.troweprice.com](http://rps.troweprice.com)

### Fund Performance:

Columbia Acorn Fund: 800.922.6769

Ariel Fund: 800.292.7435

Fidelity Funds: 800.544.8888

Provident Investment Counsel: 800.618.7643

Stable Return Fund/INVESCO: 800.228.7466

T. Rowe Price Funds: 800.922.9945

Vanguard Funds: 800.523.8066

Wells Fargo: 800.222.8222

## Q&A (continued from page 1)

Compensation Division and T. Rowe Price, which was not implicated in the scandal, seek to protect the best interest of long-term shareholders. Along those lines, the excessive trading practices of a very small number of participants for short-term gains does not serve the best interest of the Plan or its participants. The enforcement of trading policies already in place is a logical step toward minimizing the negative impact excessive trading can have on participants.

### **Q. How will I know if I will have a redemption fee charged to me?**

- A. On a telephone exchange, you will be told by the service representative prior to a trade execution if a redemption fee would apply toward that trade. If you are making an exchange online, the system will inform you if the exchange will result in a redemption fee being charged. In either case, you would have the ability to cancel the request and avoid the fee.

## Income and Price Information

### Fourth Quarter 2004

Transaction Date	Vanguard Bond Index	T. Rowe Price New Income <sup>1</sup>	Fidelity Puritan <sup>2</sup>	Fidelity <sup>3</sup>	Vanguard Inst. Index <sup>4</sup>	Wells Fargo Lg. Company Growth <sup>5</sup>	Columbia Acorn <sup>6</sup>	Ariel <sup>7</sup>	T. Rowe Price Int'l Stock <sup>8</sup>	PIC Small Cap Growth
10/01/04	\$10.27	\$9.07	\$18.31	\$28.46	\$103.66	\$43.44	\$24.70	\$51.26	\$11.67	\$14.92
10/04/04	\$10.27	\$9.07	\$18.35	\$28.57	\$104.01	\$43.68	\$24.83	\$51.48	\$11.71	\$15.02
10/05/04	\$10.28	\$9.08	\$18.34	\$28.53	\$103.95	\$43.61	\$24.83	\$51.39	\$11.74	\$15.00
10/06/04	\$10.25	\$9.06	\$18.43	\$28.75	\$104.67	\$43.88	\$24.98	\$51.69	\$11.76	\$15.08
10/07/04	\$10.25	\$9.05	\$18.34	\$28.44	\$103.63	\$43.31	\$24.73	\$51.20	\$11.67	\$14.95
10/08/04	\$10.30	\$9.10	\$18.20	\$28.15	\$102.86	\$42.72	\$24.54	\$50.84	\$11.74	\$14.74
10/11/04	\$10.30	\$9.10	\$18.20	\$28.19	\$103.06	\$42.95	\$24.60	\$50.92	\$11.72	\$14.80
10/12/04	\$10.31	\$9.11	\$18.17	\$28.16	\$102.83	\$42.59	\$24.49	\$50.89	\$11.56	\$14.76
10/13/04	\$10.32	\$9.12	\$18.08	\$27.98	\$102.09	\$42.51	\$24.30	\$50.53	\$11.51	\$14.66
10/14/04	\$10.35	\$9.14	\$17.97	\$27.73	\$101.14	\$41.94	\$24.21	\$50.17	\$11.49	\$14.56
10/15/04	\$10.33	\$9.12	\$18.01	\$27.85	\$101.59	\$42.20	\$24.31	\$50.39	\$11.58	\$14.60
10/18/04	\$10.33	\$9.12	\$18.03	\$27.98	\$102.12	\$42.74	\$24.39	\$50.46	\$11.62	\$14.72
10/19/04	\$10.33	\$9.13	\$17.92	\$27.72	\$101.13	\$42.47	\$24.29	\$50.36	\$11.64	\$14.71
10/20/04	\$10.35	\$9.14	\$17.94	\$27.72	\$101.18	\$42.46	\$24.39	\$50.43	\$11.64	\$14.75
10/21/04	\$10.35	\$9.14	\$17.97	\$27.79	\$101.45	\$42.85	\$24.67	\$50.73	\$11.68	\$14.94
10/22/04	\$10.35	\$9.14	\$17.89	\$27.50	\$100.46	\$42.13	\$24.46	\$50.21	\$11.63	\$14.69
10/25/04	\$10.36	\$9.14	\$17.89	\$27.43	\$100.37	\$42.01	\$24.56	\$50.38	\$11.61	\$14.73
10/26/04	\$10.35	\$9.14	\$18.06	\$27.76	\$101.86	\$42.46	\$24.74	\$50.81	\$11.68	\$14.83
10/27/04	\$10.32	\$9.11	\$18.16	\$28.08	\$103.19	\$43.43	\$24.99	\$51.59	\$11.80	\$15.25
10/28/04	\$10.32	\$9.11	\$18.19	\$28.15	\$103.41	\$43.67	\$24.94	\$51.56	\$11.88	\$15.18
10/29/04	\$10.34	\$9.13	\$18.24	\$28.22	\$103.67	\$43.55	\$24.96	\$51.59	\$11.83	\$15.13
11/01/04	\$10.32	\$9.11	\$18.24	\$28.23	\$103.70	\$43.64	\$25.00	\$51.37	\$11.86	\$15.10
11/02/04	\$10.32	\$9.12	\$18.24	\$28.25	\$103.70	\$43.85	\$25.02	\$51.54	\$11.94	\$15.12
11/03/04	\$10.33	\$9.13	\$18.38	\$28.59	\$104.88	\$44.18	\$25.37	\$52.04	\$12.10	\$15.55
11/04/04	\$10.33	\$9.13	\$18.59	\$28.98	\$106.58	\$44.73	\$25.69	\$52.86	\$12.25	\$15.47
11/05/04	\$10.28	\$9.09	\$18.60	\$29.11	\$107.00	\$45.12	\$25.78	\$53.00	\$12.30	\$15.52
11/08/04	\$10.27	\$9.08	\$18.58	\$29.04	\$106.89	\$45.16	\$25.66	\$52.84	\$12.25	\$15.50
11/09/04	\$10.27	\$9.08	\$18.59	\$29.04	\$106.85	\$45.12	\$25.72	\$52.92	\$12.22	\$15.53
11/10/04	\$10.26	\$9.07	\$18.60	\$29.05	\$106.77	\$44.98	\$25.83	\$53.13	\$12.22	\$15.66
11/11/04	\$10.26	\$9.07	\$18.70	\$29.33	\$107.74	\$45.66	\$26.03	\$53.30	\$12.32	\$15.86
11/12/04	\$10.28	\$9.09	\$18.82	\$29.62	\$108.73	\$46.24	\$26.27	\$53.58	\$12.46	\$15.96
11/15/04	\$10.28	\$9.10	\$18.80	\$29.60	\$108.71	\$46.32	\$26.26	\$53.64	\$12.43	\$16.01
11/16/04	\$10.27	\$9.09	\$18.72	\$29.40	\$107.95	\$45.87	\$26.06	\$53.40	\$12.38	\$15.87
11/17/04	\$10.30	\$9.12	\$18.81	\$29.58	\$108.56	\$46.13	\$26.23	\$51.76	\$12.54	\$16.00
11/18/04	\$10.31	\$9.12	\$18.82	\$29.62	\$108.71	\$46.09	\$26.22	\$51.80	\$12.50	\$15.95
11/19/04	\$10.28	\$9.10	\$18.70	\$29.29	\$107.50	\$45.32	\$25.98	\$51.32	\$12.45	\$15.69
11/22/04	\$10.29	\$9.11	\$18.77	\$29.43	\$108.13	\$45.54	\$26.17	\$51.68	\$12.37	\$15.79
11/23/04	\$10.29	\$9.11	\$18.78	\$29.43	\$108.11	\$45.53	\$26.28	\$51.76	\$12.41	\$15.89
11/24/04	\$10.28	\$9.11	\$18.83	\$29.54	\$108.56	\$45.91	\$26.47	\$52.05	\$12.47	\$16.04
11/26/04	\$10.26	\$9.09	\$18.85	\$29.55	\$108.66	\$45.85	\$26.54	\$52.13	\$12.61	\$16.05
11/29/04	\$10.23	\$9.06	\$18.80	\$29.47	\$108.30	\$45.83	\$26.59	\$52.00	\$12.63	\$16.09
11/30/04	\$10.22	\$9.06	\$18.77	\$29.35	\$107.86	\$45.39	\$26.53	\$51.91	\$12.54	\$16.07
12/01/04	\$10.22	\$9.05	\$18.93	\$29.80	\$109.51	\$46.25	\$26.81	\$52.54	\$12.72	\$16.37
12/02/04	\$10.21	\$9.04	\$18.89	\$29.80	\$109.42	\$46.59	\$26.69	\$52.65	\$12.72	\$16.39
12/03/04	\$10.26	\$9.09	\$18.92	\$29.88	\$109.49	\$46.53	\$26.74	\$52.62	\$12.78	\$16.39
12/06/04	\$10.28	\$9.11	\$18.91	\$29.80	\$109.41	\$46.60	\$26.68	\$52.33	\$12.75	\$16.34
12/07/04	\$10.28	\$9.10	\$18.81	\$29.45	\$108.20	\$46.06	\$26.32	\$51.92	\$12.68	\$16.00
12/08/04	\$10.32	\$9.13	\$18.86	\$29.59	\$108.76	\$46.34	\$26.41	\$52.16	\$12.57	\$16.15
12/09/04	\$10.30	\$9.11	\$18.90	\$29.76	\$109.35	\$46.48	\$26.46	\$52.03	\$12.51	\$16.08
12/10/04	\$10.31	\$9.11	\$18.61	\$29.74	\$109.24	\$46.25	\$25.56	\$52.03	\$12.42	\$16.11
12/13/04	\$10.31	\$9.12	\$18.73	\$29.95	\$110.23	\$46.47	\$25.76	\$52.25	\$12.63	\$16.23
12/14/04	\$10.31	\$9.13	\$18.78	\$30.03	\$110.66	\$46.67	\$25.93	\$52.64	\$12.44	\$16.35
12/15/04	\$10.33	\$9.15	\$18.84	\$30.05	\$110.89	\$46.64	\$26.04	\$52.74	\$12.59	\$16.46
12/16/04	\$10.29	\$9.11	\$18.79	\$29.96	\$110.67	\$46.23	\$25.85	\$52.60	\$12.53	\$16.33
12/17/04	\$10.28	\$9.10	\$18.72	\$29.55	\$109.84	\$45.92	\$25.89	\$52.75	\$12.48	\$16.37
12/20/04	\$10.28	\$9.11	\$18.74	\$29.57	\$109.89	\$45.76	\$25.83	\$52.60	\$12.61	\$16.25
12/21/04	\$10.29	\$9.12	\$18.86	\$29.79	\$110.05	\$46.18	\$26.06	\$52.89	\$12.63	\$16.46
12/22/04	\$10.28	\$9.11	\$18.90	\$29.91	\$110.47	\$46.33	\$26.17	\$53.15	\$12.68	\$16.54
12/23/04	\$10.28	\$9.11	\$18.92	\$29.92	\$110.52	\$46.40	\$26.26	\$53.00	\$12.76	\$16.60
12/27/04	\$10.25	\$9.08	\$18.87	\$29.81	\$110.04	\$46.22	\$26.12	\$52.65	\$12.90	\$16.52
12/28/04	\$10.24	\$9.08	\$18.94	\$29.99	\$110.83	\$46.69	\$26.42	\$53.13	\$12.94	\$16.86
12/29/04	\$10.23	\$9.07	\$18.93	\$29.92	\$110.84	\$46.77	\$26.43	\$53.17	\$12.86	\$16.86
12/30/04	\$10.26	\$9.09	\$18.95	\$29.92	\$110.85	\$46.74	\$26.49	\$53.17	\$12.96	\$16.86
12/31/04	\$10.27	\$9.11	\$18.95	\$29.88	\$110.71	\$46.67	\$26.45	\$53.17	\$12.93	\$16.82

<sup>1</sup>New Income earnings are calculated using daily income accruals. They credit earnings to the first working day of the following month. Therefore, 31 days were credited for October, 30 days were credited for November, and 33 days were credited for December.

<sup>2</sup>Puritan declared a distribution of \$.26 payable December 10, 2004, to shareholders of record on December 7, 2004, using a share value of \$18.61. Puritan also declared a distribution of \$.11 payable October 8, 2004, to shareholders of record on October 7, 2004, using a share value of \$18.20.

<sup>3</sup>Fidelity declared a distribution of \$.08 payable October 8, 2004, to shareholders of record on October 7, 2004, using a share value of \$28.15. Fidelity also declared a distribution of \$.21 payable December 17, 2004, to shareholders of record on December 14, 2004, using a share value of \$29.55.

<sup>4</sup>Vanguard Institutional Index Fund declared a distribution of \$.85 payable December 21, 2004, to shareholders of record on December 20, 2004, using a share value of \$110.05.

<sup>5</sup>Wells Fargo Large Co. Growth Fund declared a distribution of \$.07295 payable December 20, 2004, to shareholders of record on December 19, 2004, using a share value of \$45.76.

<sup>6</sup>Columbia Acorn Fund declared a distribution of \$.8986 payable December 10, 2004, to shareholders of record on December 9, 2004, using a share value of \$25.56.

<sup>7</sup>Ariel Fund declared a distribution of \$1.79041 payable November 17, 2004, to shareholders of record on November 16, 2004, using a share value of \$51.76. Ariel Fund also declared a distribution of \$.02291 payable December 29, 2004, to shareholders of record on December 28, 2004, using a share value of \$53.17.

<sup>8</sup>T. Rowe Price International Stock Fund declared a distribution of \$.15 payable December 14, 2004, to shareholders of record on December 13, 2004, using a share value of \$12.44.